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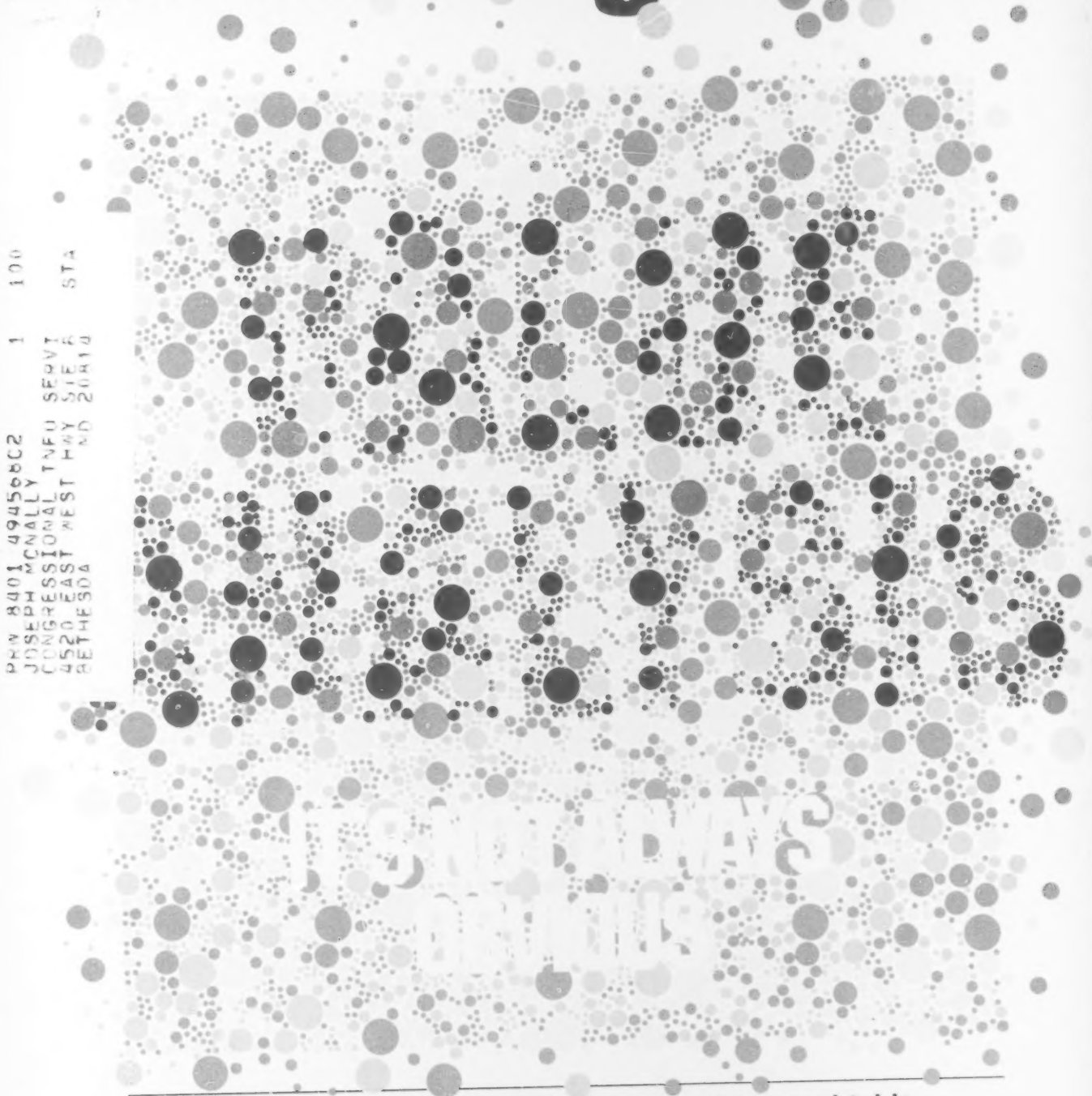

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Quality's value exceeds its cost—an exclusive round table

Using purchasing to obtain professional services

Bar code boom extends thru industry

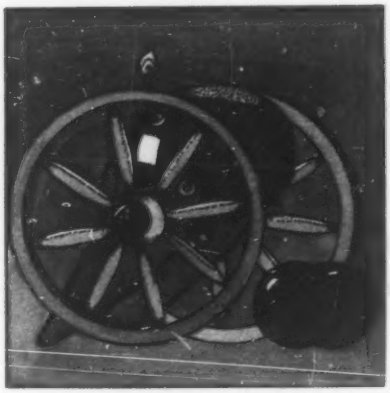
PurchasingWorld®

Helping you manage the business of buying

February 1988 Vol. 32 No. 2

Special report: Value analysis—

28 It's not just parts
Value analysis as a concept has been with us for many years, and its use grows more important as worldwide competitiveness increases. *PurchasingWorld* presents a number of examples of VA successes—from companies around the country—which can steer buyers to better values and better ways to do things.



65

39 Bar code boom extending thru industry
A study commissioned by Akron, OH-based Telxon Corp. takes the measure of this $500 million/year (and growing) business as it penetrates industry after industry.

40 Code 49—what is it?
Code 49 has emerged as a new tool in automatic identification technology and information collection. Its inventor, David Allais, explains the new code and its applications, and *PW* readers also get a look at new applications and products in this growing field.

48 Quality's value exceeds its cost
This exclusive roundtable discussion on buying value, conducted by *PW* Editorial Director Jim Lorincz, and co-sponsored by Associated Spring, brings together the experience and comments of seven top purchasing professionals.

65 CISG and the battle of the forms
Dr. John Murray spells out the changes which the United States' adoption of the Convention for the International Sale of Goods (CISG) will bring to the art of procurement: Buyers will have to be more careful than under the familiar UCC guidelines.

68 The art of negotiating—part II
PurchasingWorld's new columnist on computer software, Garry Hersman, explains the updated version of a program designed to make buyers better negotiators.

67

Cover art by Susan Kay Rahn

Departments

4 PW Pointers
6 Editorial
11 PW Predicts
17 Datatrak
43 PW Office '88
65 Murray on Law
66 Survey of the Month
67 DeRose on Negotiations
68 Hersman on Software
71 Sample Pak
72 Literature
73 Classified
74 Ad Index

PurchasingWorld (USPS 472 470) is published monthly by International Thomson Industrial Press, Inc., 6521 Davis Industrial Parkway, Solon, OH 44139. Printed in USA. Subscriptions: Available without charge to qualified purchasing executives in US manufacturing companies. Available to others in the US for $46/year; Canada $56/year. Foreign subscriptions are available for $85 airmail or $60 surface mail. Sole agent for all subscriptions outside the USA and Canada is J.B. Tratsart, Ltd., 154a Greenford Road, Harrow, Middlesex HA 13QT, England. Second class postage paid at Cleveland, OH, and additional mailing offices. Editorial, circulation, and business offices: 6521 Davis Industrial Parkway, Solon, OH 44139.

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ISSN 0093 1659

Postmaster: Send address changes to *PurchasingWorld*, 6521 Davis Industrial Parkway, Solon, OH 44139.

Industrial prices increase moderately

Industrial price increases are likely to continue in the moderate range—with little or no additional acceleration anticipated over the next few quarters.

The dollar seems to be stabilizing after its recent declines. To be sure, some additional currency weakness can't be entirely ruled out. But even so, the exchange rate impact on overall inflation for 1988 is not likely to be more than one percentage point—and it could even be a bit less than that.

Energy should be another bright spot on the price front. Crude petroleum quotes are currently struggling to maintain current levels. This not only affects refined oil products such as gasoline, heating oil, and residual fuel—but also chemicals, plastics,and a many other big-user industries.

Data Resources Inc. (DRI) provides an interesting computer rundown on oil's impact on inflation. One of the consulting firm's key findings on this score: If oil settles in the $13-15/barrel range (versus $18/barrel recently), U.S. inflation would fall a full percentage point from DRI's baseline 4.3% rate to near 3.3%.

Another positive factor for the new year: Basic raw material prices are not likely to advance anywhere near as fast as they did in 1987. In fact, another big econometric forecasting outfit—Wharton—sees prices of these key industrial inputs remaining more or less flat—not only for the next few quarters, but probably into 1989 as well. This certainly seems likely in the critical metals area which saw some really big runups in 1987.

The wage cost factor shouldn't be too much of a problem this year, either. Thanks to still-increasing productivity, unit labor costs are expected to rise by only 3-3.5% this year.

Even the supply-demand side of the price equation doesn't look all that bad. True, the typical American factory is now operating at near 82% of its potential—up about three percentage points from the 79% reading of 1986.

Latest projections, for example, show industrial production increasing at about a 3% rate this year. Superimpose this on an expected 2% advance in new production capacity—and it suggests that operating rates won't rise much above 83%.

Also helping the supply side of the equation: A continuing strong import flow—even in the face of the recent dollar softness. A new *PW* survey suggests that about one out of every three respondents intend to increase their take of foreign products this year—offsetting the 50% who expect cutbacks.

What does it all add up to? One recent survey of 42 top economists points to about a 4% increase in the GNP price deflater—an all-embracing yardstick which includes industrial prices, consumer prices, and all kinds of services.

Nor is there any danger of "importing" inflation from our trading partners. A new Organization for Economic Cooperation and Development (OECD) forecast, for example, puts the Japanese and West German 1988 GNP inflation rates at only 1% and 1.75%, respectively.

Plastic Resins

CURRENT SITUATION: It's been a rough year for buyers of these versatile synthetics due to snug supplies and big price boosts in most commodity resins. If there is any doubt on the latter score, look at these impressive price gains *vis a vis* 1987: LDPE (37%), HDPE (22%), polypropylene (32%), polystyrene (54%), and PVC (31%).

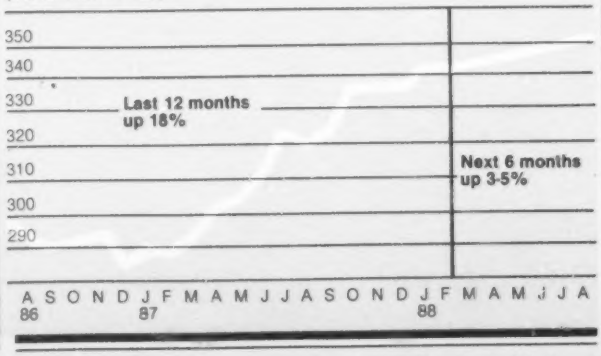
DEMAND: More gains are ahead for 1988. The overall advance is running at twice the pace of general GNP growth. If current economic projections hold up, nearly 60 billion lb of resin could clear the market. But gains will be uneven: LDPE (3%), HDPE (6%), PP (7%), PS (5%), PVC (2%), and ABS (4%). **As in 1987, packaging end-uses should lead the advance.**

SUPPLY: Snugness should persist through much of 1988 in the big commodity resin sector as demand continues to bump up against capacity restraints. Right now, capacity additions will just about keep up with demand—keeping the overall operating rate near 93%. **But relief is on the way for the longer pull.** Supply increases over the next few years: PE (up 16%), PP (up 8%), and PVC (up 16%).

PRICE OUTLOOK: Conflicting forces will buffet the industry. Continued high operating rates will cause upward demand-pull pressure. But cost-push pressures should diminish as petrochemical feedstocks ease in line with softening crude oil tags.

Plastic resin prices

(Index: 1967 = 100)



Handtools headed up

Purchases of handtools—aided by improving industrial demand—are heading for a modest pickup. A new study by the Freedonia Group of Cleveland puts real average gains near 1.5% annually over the next few years—not great, but a lot better than the 2% average real decline of the past decade.

Prices shouldn't be too much of a problem, either. The forecast here: up 2.8% a year—less than half the 6.2% average advance noted over the 1977-86 period.

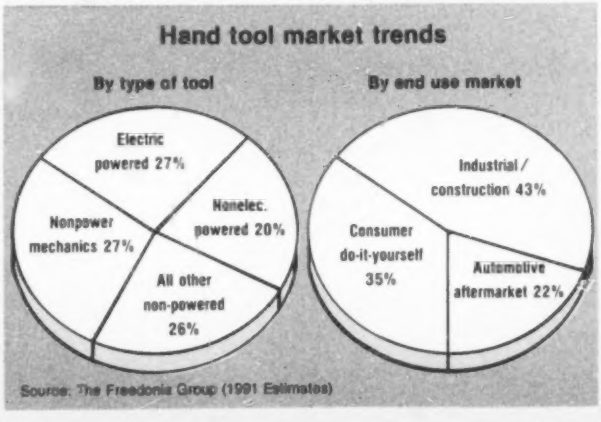
Behind the buying turnaround—aside from improving industrial demand—are 1) a strong do-it-yourself market, 2) opportunities provided by extended vehicle warranty programs, and 3) an improving international trade balance, with net imports dropping nearly 20% by 1991.

Sales of electric powered tools will show the biggest current dollar gains—as advances reach 6.3% a year. One of the prime movers here: The growing popularity of cordless tools. Presently accounting for less than 5% of the power handtool market, the convenience and flexibility advantages of cordless types will be augmented by improvements in technology.

Non-electric power handtools (including pneumatic, hydraulic, power-actuated, and engine-driven types) will grow at a somewhat smaller 4.1% rate in current dollar terms.

But these gains will still be above the estimated 3.4% annual current dollar advances seen for non-power handtools. One reason: U.S. producers have virtually abandoned the low end of this market to offshore producers. Moreover, they face stiff competition from increasingly capable and cost-efficient power handtools.

The new study also breaks down markets by end use. The industrial-construction segment will continue to dominate. But on a growth basis, consumer do-it-yourself demand will set the pace added by the growing secular trend toward self-performance of many home repair and maintenance activities.

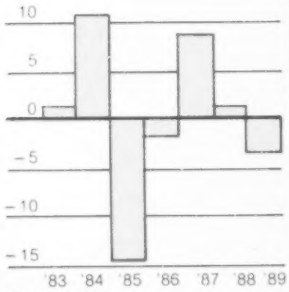


Steel

Tags continue to rise—with the latest move affecting sheet products which are scheduled to move up $30/ton in early April (a 4-8% boost). Several stainless items are also advancing. Ditto, pipe and tube products. Also worth noting: Major mills say they want a 10-20% price increase for their long-term contract customers. Behind all this bearishness: New forecasts which now expect 1988 steel consumption to come close to last year's 87-million-ton total. Imports are also expected to remain relatively low—at 21-22% of total supply (down from the peak 26.4% share hit in 1984).

Semiconductor Prices

Percent changes



Source: In-Stat

Semiconductors

A mixed picture is shaping up for solid state device quotes in 1988. A recent In-Stat projection calls for the average unit selling price to advance about 1.6% in 1988. But there could be some significant component-by-component differences—as follows: MOS logics (-0.7%), MOS memories (8.5%), linear integrated circuits (1.6%), bipolar memories (0.2%), bipolar logics (1.4%), and total discrete devices (1.3%). Preliminary estimates for 1989 by the Scottsdale, AZ consulting firm suggest an overall solid state device price decline of about 3.2%.

Copper

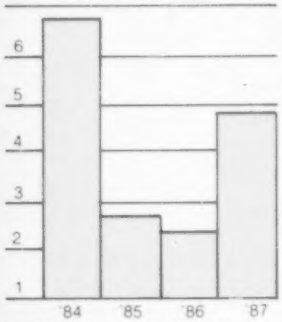
The red metal took a breather last month after the huge upward spiral of the past few quarters. But prices still remain at sky-high levels and could even edge up a bit near-term, as supply/demand fundamentals suggest continued bullishness. Global shortfalls are still put at around 20,000 metric tons/month. Prices will eventually have to fall as new production begins to hit the market later on in the year. More to the point: Quotes could drop to the 90¢/lb level by late summer or fall—a level which would still leave the industry with sizable operating profits.

Aluminum

Look for a modest 1.5-2% increase in 1988 shipments—not bad considering this comes on top of 1987's 5% gain. But the slower growth, plus increasing production, does seem to suggest an end to the runup which has seen ingot climb to near 90¢/lb (a hefty 25¢/lb above early 1987 levels). On the other hand, with supply/demand expected to remain in balance, there is little to indicate any major downward correction. Also pointing to continuing high prices: Low global inventories which at latest

report were put at about 3 million metric tons.

Paper & Product Prices
(Percent increase at annual rate)



Source: Bureau of Labor Statistics

Paper

Price increases continue as the order of the day. Boosts of 5% have just been posted on uncoated white papers—coinciding with another rather large $15/ton increase in market pulp. Also heading up are coated groundwoods—as a new $50/ton boost brings tags on the lightweight grade up to $810/ton. And to add to buyer problems, still another move would boost unbleached kraft linerboard by some $30/ton. Behind these upward movements: High industry operating rates—plus the expectation that paper demand this year will increase some 4.5%, on top of 1987's better than 5.5% advance.

Lead

The recent sharp price drop into the upper 30s range doesn't come as any great surprise. Reason: With battery demand falling off seasonally and foreign competition so aggressive, a reduction was essential for domestic producers to maintain market share. The new cut should also lower primary producer discounts which recent hit 4-5¢/lb. Nor is that the end of the line. Expanded primary and secondary output will soon be hitting the market—making a further price dip to near 35¢/lb a good bet by late spring.

Freight

The new year has brought some rate increases. Several trucking bureaus have asked for boosts that run in the 5.5-7% range. But when the dust settles, the final increases are likely to be only about half that amount—around 3%. Rates on eastbound air cargo traffic to Europe have also been moving up about 10%. The latter closely mirrors increases recently posted by carriers shipping air cargo westbound across the Pacific. Behind these air cargo moves: Higher demand on these routes occasioned by the continuing shaky dollar.

Copiers

Add color models to the growing number of product offerings. Many of the big companies—Kodak, Xerox, Canon, Konica, and others—already have models on the market. But they aren't cheap—quotes range from $35,000-$60,000. A smaller firm says it plans to introduce an $18,000 unit later this year. One problem—aside from price—is relatively slow

Equipment leasing grows

Growth is still the name of the game when it comes to the leasing of business equipment.

If a new government estimate is correct, leasing activity could jump by more than 10% this year—approaching an all-time peak of near $100 billion. More significant, the advance will be more than 1.5 times the expected gain in overall business equipment demand.

Nor does the near $100 billion 1988 estimate tell the whole story. The estimate is based on a detailed American Association of Equipment Lessors member survey and the AAEL estimates that there may be another 15-20% in new business by non-AAEL members not reflected in the $100 billion figure.

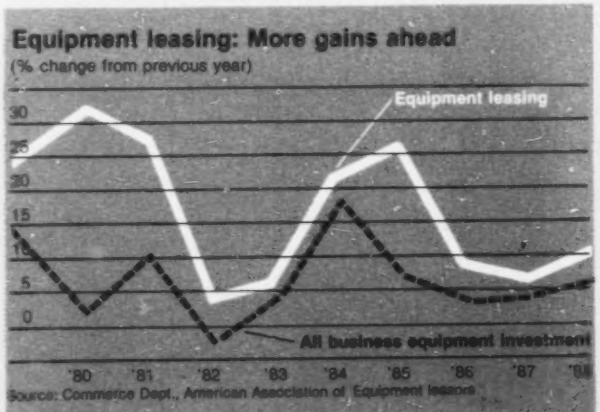
Leading the expected 1988 advance, according to the new Washington report, will be aircraft, scientific and electronic equipment, and telecommunications equipment.

Other key findings of the just-released study:

- **Industry structure:** Consolidation will continue and competition will increase. New firms with specific skills and capabilities will fill niches in markets for high-technology and other specialized equipment. Banks, now able to engage in operating leases, are expected to expand their leased product bases.
- **Foreign competition:** Overseas firms will increase their presence through both direct entry and acquisition. They should be able to compete well on funding costs and will use this advantage to expand into many product areas.
- **Long-term projections:** Active markets should continue to develop and grow around transportation, medical, communications, and high-tech equipment. But with tax reform, tax-oriented leasing will diminish in importance as the loss of tax benefits narrows the pricing advantage of leasing relative to outright purchase.

Nevertheless, a sizable market for tax-oriented leasing will remain as companies subject to the alternate minimum tax find it less costly to lease from companies able to use the tax benefits associated with leased assets.

Equipment leasing: More gains ahead
(% change from previous year)



Source: Commerce Dept., American Association of Equipment Lessors

Construction materials

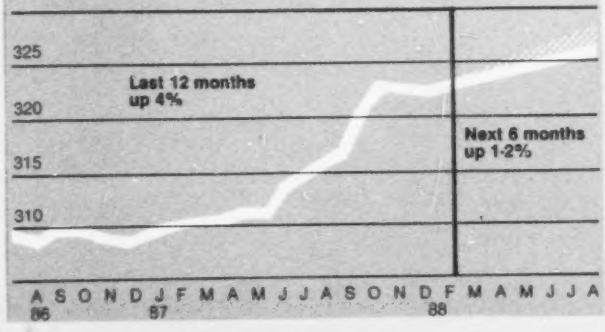
CURRENT SITUATION: Demand has levelled off—reflecting a drop in housing starts at only 1.64 million units (versus 1.82 in 1986). Price average increases have only been on the order of 3% over this period. But there has been considerable product-by-product variation. Copper wire and cable has jumped by more than 25% (reflecting the big jump in basic metal costs)—and structural steel is up 4-5%. But other items such as cement have held steady.

DEMAND: 1988 isn't going to be any world beater—based on housing starts which are expected to drop another 5-10%, and on overall real construction activity which is also expected to decline a bit. Upshot: Many products will find it hard to post gains. **Cement and structural clay could be down about 4%.** And not much change is seen in lumber as lower housing activity offsets continued strength in exports. **On the other hand, domestic construction machinery should benefit from the weaker dollar**—with gains posted in cranes, excavators, compactors, pavers, and compressors.

SUPPLY: Few problems are anticipated as lower demand in most areas is superimposed on steady or marginally higher production potential. One exception is steel where both structurals and rebars are now on allocation with quotas based on last year's purchased amounts. Most steel importers have sold out their self-imposed (or voluntary) quotas for U.S. sales in 1988.

PRICE OUTLOOK: Some increases are unavoidable, but the overall gain should only be about 2% —down about 1% point from 1987. But there could be considerable variation. **Lumber, hurt by housing, will be lucky to maintain current tags.** And plastic construction products, after advancing 7% last year, may be in for a period of consolidation. Cement will just inch ahead.

Construction material prices
(Index 1967 = 100)



Zinc

Markets remain quite firm on the basis of Chinese and Russian buying interest—as well as continued production problems at a Canadian refinery. On the demand front, both steel mills and galvanizers have been particularly heavy consumers in recent weeks. Discounts on 1988 contracts are down slightly—from 1.5-2¢/lb last year to only 1-1.5¢/lb now. Relatively low producer price inventories are still another bullish factor. Total free world stocks at latest report were down to 323,000 tons—some 8% under levels prevailing just one year earlier.

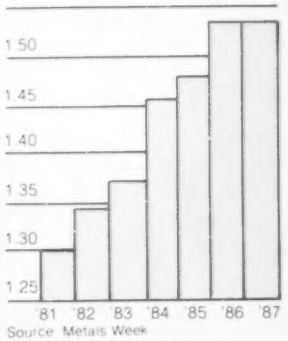
Polyvinyl chloride

Tight supplies (most buyers are now on allocation) have pushed tags up again—another 2¢/lb has been tacked onto the popular plastic, enough to bring quotes on the pipe grade up to near 40¢/lb. Only about a 2% shipment gain is currently being projected for 1988, but with capacity also targeted to move up by only 2%, the industry operating rate is likely to remain in the high 92% range.

Postal services

Look for improved service and volume discounts for Express Mail this spring. New moves planned include 1) discounts based on number of shipments per month, 2)lowering the rate on shipments weighing eight ounces or less (from $10.75 to $8.75), and 3) offering guaranteed delivery by noon the next day for shipments weighing 2 lb or less destined for major markets. Behind the moves: A need to zero in on high-volume corporate shippers.

Magnesium ingot prices
(¢/lb)

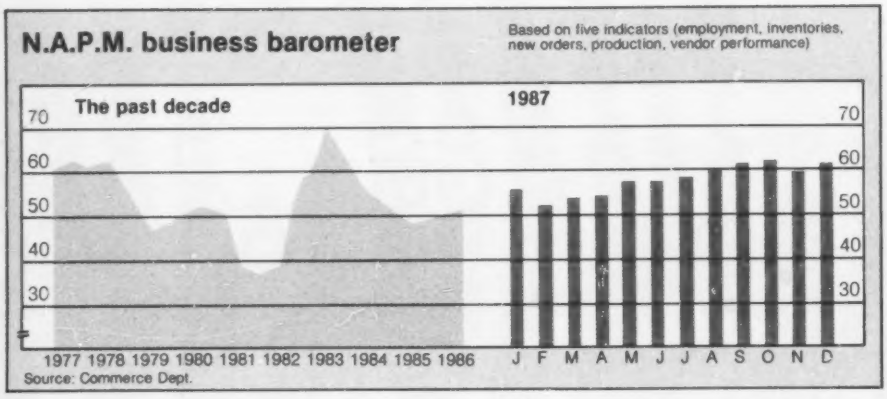


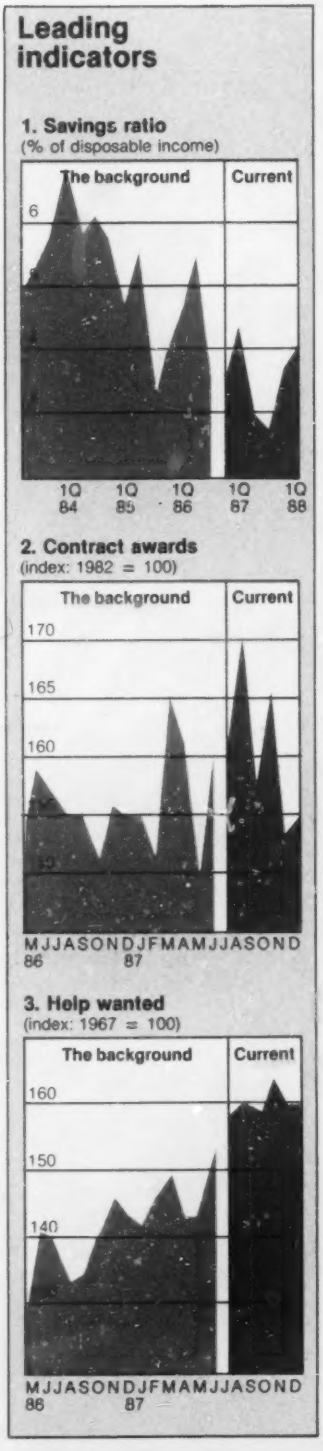
Source: Metals Week

Magnesium

Off-schedule prices are moving up 5¢/lb on primary metal, the desulfuring grade, and various casting alloys. This should bring ingot prices back up to the $1.53/lb list. Other signs of firmness: Producer stocks have been brought down—to the point where some additional production is being brought back on stream. On the other hand, prices will remain unchanged for die casting grades which go to the competitive auto market. Also reassuring is the fact that Norsk Hydro's Becancour, Quebec smelter could be on stream by 1989—and this could will make for another round of oversupply.

BUSINESS DATATRAK


N.A.P.M. business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1987
70
60
50
40
30
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986
J F M A M J J A S O N D
Source: Commerce Dept.



KEY ECONOMIC TRENDS

Optimism is growing

The new year seems to be getting off to a decent start. Retail sales seem to have leveled off a bit, but exports and capital equipment should rack up some gains—enough to keep GNP in the plus column for at least another few quarters.

In fact, optimism seems to be growing rather than receding. A new survey of 52 economists by Blue Chip Economic Indicators suggests a 2.2% increase in real growth this year—a modest upward revision from the 2.0% projection made one month earlier.

In an early look at 1989, this same group of business analysts is forecasting a continuing slow advance.

But there are more than just economic opinions to back up today's cautious optimism.

Commenting on this, NAPM business survey committee chairman Robert Bretz adds, "virtually all indicators remain positive, with no buildup of inventories. The beginning-of-the-year position of new orders is the strongest in four years, and signals a robust beginning for 1988."

Other economic news, too, suggests that one of the longest post-war recoveries in history still has a way to go.

Auto sales will be down but, judging from 1) the recent holiday buying, 2) consumer attitude surveys, and 3) the nation's savings rate, everything seems to point to only modest consumer retrenchment. On the attitude score, both Conference Board and University of Michigan surveys have turned up again in the latest reported months.

This backs up model-generated forecasts calling for a continued relatively low savings rate (4.0% in the first quarter—see chart) and continued small gains in real consumption expenditures.

Construction may not turn out all that badly. Some declines are expected, but judging from contract awards (commitments for future building, see chart), the fall-off should be manageable.

Some of the loss in capital spending suggested by the above construction members is likely to be offset by higher plant and equipment outlays. Businessmen expect to increase spending in this area by more than 7% this year.

Tending to support this positive plant and equipment forecast is a still-rising factory operating rate. At 82%—the highest level since 1980—it points up the need for new production potential.

Latest unemployment figures also add to the feeling that the next few quarters will turn out moderately bullish.

More important, the demand for new workers is also holding up well. The Conference Board's help-wanted index—160 at latest report—remains close

to recent peak levels (see chart).

Also on the plus side is the continuing low level of factory inventories. At the end of 1987, the stock/sales ratio was only 1.60—just above the 1.59 all-time low of previous months.

Who spends how much for R&D?

American industry—with a big assist from Uncle Sam—isn't about to take a back seat to anyone when it comes to research and development.

A new Battelle survey indicates that a hefty $131.5 billion will be earmarked for R&D this year—about 7% more than was spent in 1987. Prices for R&D activities are expected to rise 4.5%, But that would still seem to suggest a 2.5% increase in real or physical terms.

Battelle President and Chief Executive Dr. Douglas E. Olesen notes, "We see private industry continuing its strong support for R&D work. While the rate of increase may be slowing as a result of economic uncertainties, industry will continue to seek innovative technologies for future growth."

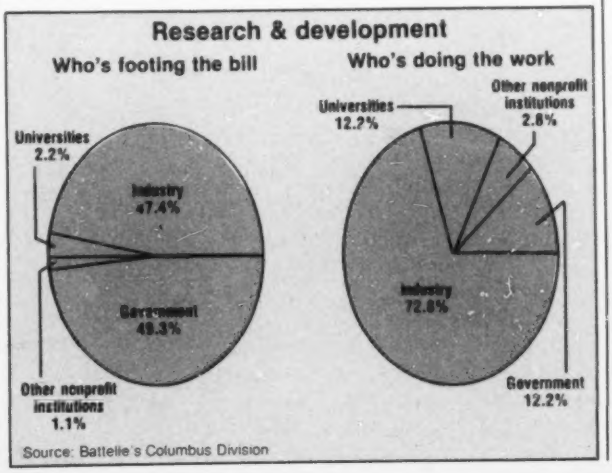
Industry's contribution is highlighted by the fact that some 47.4% of total R&D spending will be privately funded this year. That's not much less than the government's 47.3% contribution (see chart). The remainder of the money will come from universities and non-profit institutions.

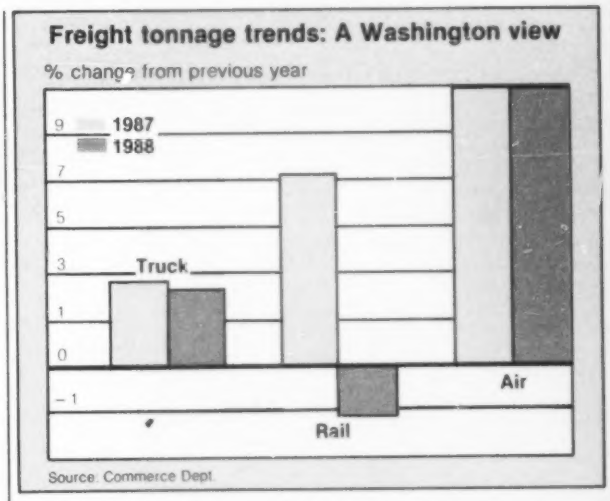
But wherever the money comes from, industry will remain the dominant performer. The big Columbus, OH-based research firm projects that industry will do about $96 billion (73%) of the work. This compares to the 12% to be performed by the government and the 15% by academic institutions and other non-profit organizations.

New industry-by-industry estimates suggest that aerospace firms will be doing the most R&D—about 25% of the total—though most of the funding in this area will be coming from Uncle Sam. The electrical machinery and communications industry will come in second—with about a $20.4 billion R&D total. And here again, 40% will be government funded.

Other industrial sectors that are targeted to perform more than $1 billion in R&D include:

- Chemicals—$9.4 billion, 97% to be industrially funded;
- Machinery—$11.9 billion, 87.5% to be industrially funded;
- Autos, trucks and parts, and other transportation equipment—$9.2 billion, 77% to be industrially funded;
- Professional and scientific instruments—$6.8 billion, 84.8% to be industrially funded;
- Rubber products (including all other research performed by major rubber companies)—$1.5 billion, 84% to be industrially funded; and
- Food and beverage products—$1.07 billion, practically all of which is industrially funded.





1988 transportation forecast

Figure on generally small and rather spotty gains in freight tonnages this year—not nearly enough to alter the continuing buyers' market in transportation services.

A new DRI study sees LTL trucking going up only 3.6%, about half the 6.3% advance estimated for 1987.

In the meantime, the Lexington, MA-based consulting firm expects the rail sector to post an even smaller 1.9% increase in traffic over the current year.

Uncle Sam's forecasters are equally cautious when predicting gains—with intercity truck ton miles (LTL and TL combined) expected to rise by only 2.3%.

The same study also predicts an even smaller 1.9% increase in trucking revenue—with discounting as the culprit. Government analysts feel marginal fleets will have trouble finding capital and many will go out of business.

On the rail front, these same government people are much more bearish than their DRI counterparts. They forecast a 1.1% drop in ton miles

this year—a major change from last year's estimated 7.1% tonnage gain.

About the only big demand gains, according to these Washington analysts, will be in the air cargo area. The forecast here: A solid 11% gain for 1988—pretty much a repeat of 1987's performance.

Another plus: Air cargo operations will not be affected by possible limitations of the air infrastructure. Air cargo carriers traditionally operate during "off-peak" hours, late at night when demand on the air traffic control system decreases.

Uncle Sam's analysts also predict an increase in multi-modal transportation companies—sparked by more acquisitions and more mergers between railroads and trucking companies.

This month's breakdown

	Latest level (December)	% change from: Month ago	Year ago
Bearings	359.0	0.1	0.8
Bolts, nuts, etc.	291.1	4.3	4.8
Chemicals, inorganic	297.8	1.0	1.6
Chemicals, organic	365.1	0.4	11.7
Concrete products	325.9	−0.2	0.3
Corrugated cartons	NA	NA	NA
Cutting tools, small	294.0	0.1	0.0
Electric lamps (bulbs)	349.5	−0.8	0.5
Electronic components	204.2	0.4	0.5
Fans and blowers	376.3	1.3	1.9
Foundry and forge products	368.5	0.1	1.5
Fuel oil (residual)	587.4	−5.9	27.1
Furniture, commercial	331.2	0.5	3.2
Gasoline	381.3	−6.2	20.6
Glass, flat	242.4	0.7	3.8
Glass containers	399.9	−0.3	0.0
Gypsum products	310.6	1.6	−10.6
Hand tools	402.6	1.1	4.0
Hand tools, power driven	242.8	0.1	0.9
Industrial furnaces	406.3	0.7	2.2
Integrating and measuring instruments	242.0	−0.2	1.7
Internal combustion engines	360.0	0.0	1.8
Lubricating oil	343.2	−2.0	−0.9
Lumber millwork	333.7	−0.1	4.6
Material handling equipment	302.7	−0.7	1.7
Metal containers	355.0	−1.4	−2.1
Metal mill shapes (nonferrous)	358.0	3.7	20.8
Metal tanks	307.8	0.4	3.0
Motors and generators	364.3	0.7	3.1
Motor trucks	322.4	−2.5	−0.5
Office and store equipment	159.8	0.2	2.8
Paperboard	312.8	0.5	11.4
Paper boxes and shipping containers	297.2	0.1	8.4
Paper office supplies	246.1	0.2	2.1
Paint	285.7	−1.8	1.3
Plastic resins	278.3	0.2	3.4
Precision measuring tools	278.3	0.2	3.4
Pumps and compressors	367.6	0.2	1.0
Refractories	376.9	0.6	1.9
Rubber belts and belting	329.4	−0.2	−2.3
Scales and balances	235.6	−0.1	1.2
Steel products	370.5	1.0	6.4
Switchgear	290.2	−0.3	1.8
Textiles, synthetic fibers	151.2	0.3	1.9
Textiles, gray fabrics	161.4	0.3	7.7
Tires and tubes	235.1	1.0	1.9
Transformers and power regulators	243.2	1.1	3.1
Welding equipment	307.6	0.0	1.8
Wire and cable	249.4	9.3	21.7

CURRENT PRICES

Energy drops lead good news

Good news on the industrial price front as averages over the latest month hold unchanged—a lot better than last year's gradual rise.

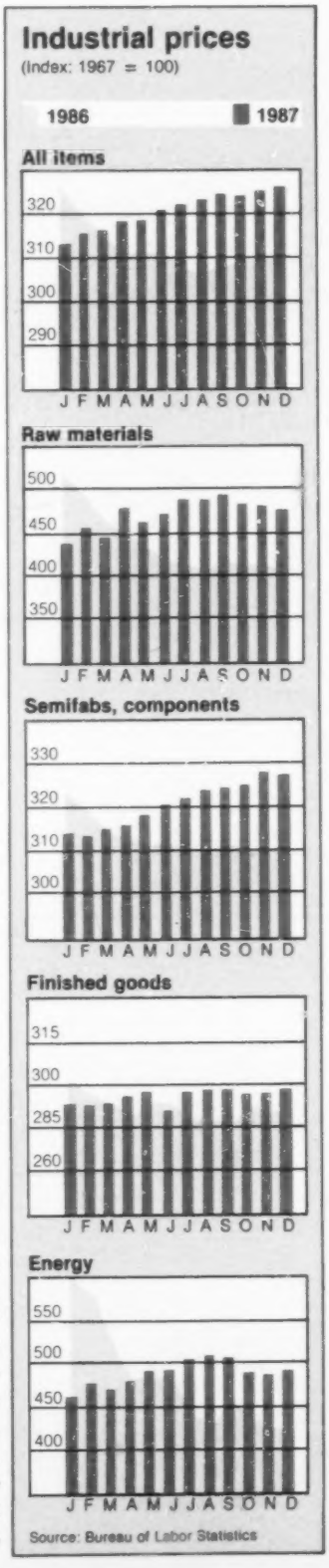
Best showing continues to come from the energy sector where quotes over the latest 30-day period dropped a significant 2%. And the decline was pretty widespread—embracing lube oils, home heating oil, diesel, jet and residual fuels, gasoline, liquid petroleum gas, and crude oil. Only natural gas and electricity managed to buck the downward trend.

Packaging was more of a mixed bag; while paper boxes and shipping containers continued to edge higher, aluminum beverage cans and glass containers both dipped a bit.

The chemical and allied product industry also remained on the neutral side. While industrial chemicals, synthetic rubber and synthetic textiles were up, plastic resins and paint both tended to move lower.

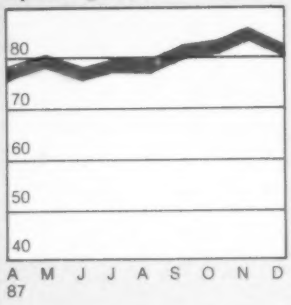
Capital equipment managed to move to slightly higher ground, sporting a 0.2% increase over the month. Behind the boost: Higher asking prices for heavy trucks, oil and gas field equipment, metal-cutting machine tools, material handling equipment, and mining machinery.

Metals, too, were generally higher. The biggest boost came in copper,

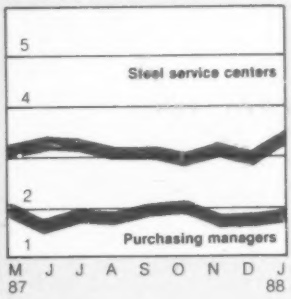


Steel

Operating rates

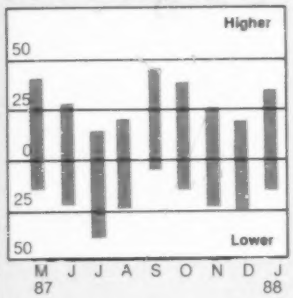


Inventories
(Months supply on hand)

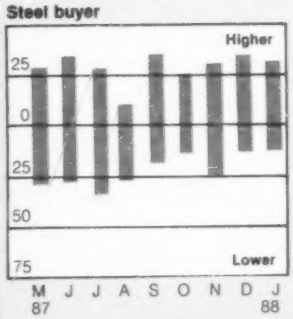


Demand
(Percent of respondents)

Service centers incoming orders



Steel buyer



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

where shortages sent tags through the roof. Also heading higher over the month were aluminum, steel mill products, zinc, precious metals, nonferrous metal ores, and copper and aluminum scrap.

There were also scattered increases in some other product lines—including nonferrous wire and cable, fabricated metal products, metal fasteners, commercial furniture, flat glass, and tires. These were more than enough to offset declines in softwood lumber, plywood, instruments, switchgear, and rubber belts and belting.

So much for history; what about the next few months? One government analyst feels the overall upward drift in the bellwether industrial producer price index is about to resume. Why? Because of a diminished downward pull from energy, and seasonal influences (many firms use the first quarter of the year to post annual increases). His near-term forecast: Small monthly increases, averaging out in the 0.3-0.% range.

Import prices
(Compared to domestic)

Steel buyers

ABOVE 50%
SAME 38%
SLIGHTLY BELOW 12%
SUBSTANTIALLY BELOW 0%

Service centers (carbon)

ABOVE 16%
SAME 80%
5-10% BELOW 4%
10-20% BELOW 0%
OVER 20% BELOW 0%

STEEL SCENE

Buyers see surge continuing

The steel buying surge of the past year is still going strong. Both buyers and service centers agree on this. Surveys from both groups suggest more gains in the months ahead.

Some purchasing managers responding to the latest NAPM steel survey now see increased receipts of the metal into their plants over the next three months.

Distributors responding to a Steel Service Center Institute (SSCI) survey tell much the same story. The numbers here are almost identical to those of buyers: Some 36% expect increases in sales to users and 14% figure on some decline.

Andrew Sharkey, SSCI president, adds that stainless steel bar and alloy continue to register impressive gains--with his only negative note alluding to some slippage in plate, tubing, and structurals.

Sharkey also cites some service center inventory buildup. While he feels some of this may be seasonal, another part could be related to stocking up in anticipation of price increases.

But whatever the reason, distributors don't seem to be concerned about the buildup. More to the point, the 16% who currently rate their stocks as being too high are offset by another 16% who now feel they're too low.

Steel buyers, on the other hand, are still cutting stocks. Their holdings are now around the 1.82 months level, significantly under the 2.07 high of this past spring.

This dropoff may be due in part to increasing emphasis on just-in-time stocking techniques. But another part could be due to the inability to snap up more than just bare minimum needs.

But whether they will be able to do so in the near term remains questionable. Reason: Possibility of shortages. Biggest worries are centered in hot- and cold-rolled sheet and plate. Coated sheet and structurals are also still on some PMs questionable list.

Some of this concern could be unwarranted, for 1988 forecasts suggest that domestic shipments will stay at last year's levels. Then, too, the supply side of the equation should be improved as 1) the new year is unhampered by post-strike mill startups, and 2) capacity remains relatively stable compared to last year's big cutbacks.

The worry about prices expressed by many buyers and service centers seems more realistic—a series of increases has just been announced—and all signs indicate that most or all of them will hold up.

That's not only because of closer supply/demand balance but also because of the lack of import competition. The latter shows up most clearly in buyer response to an import/domestic price comparison question. Half say foreign tags are now higher and

only 12% say they're lower. (The remaining 38% see no significant difference.)

The price comparison figures are even more impressive on the service center level, where only 4% note a foreign price advantage in carbon products—and even then the break is 10% or less. True, 15% say imported stainless offers some advantages. But even here that's a far cry from the 75% reading noted just one year earlier.

The lack of foreign price competition and improved domestic mill operating rates are prompting some of these service centers to budget for significant increases when replacing their current stocks. All in all, an overwhelming 96% expect to pay more for their steel six months from now.

Even that doesn't tell the whole story. More than one out of four of these distributors (28%) see the increases running in the over-5% range.

PROCUREMENT STATUS

Scattered worries on buying front

1988 seems to be starting where 1987 left off—most industrial buyers are still concerned about availability and leadtimes.

No one is pushing the panic button, though. The latest buyers' reports actually show more PMs cutting inventories than adding to them.

While few are complacent, most purchasing executives believe that things will actually improve this year. Their confidence is based on the relative slow growth predicted for the year ahead, the continued availability of imported goods, and new supplier plans for capital expansion.

The latter is most reassuring. But new capacity doesn't appear overnight and that's why *PW's* exclusive leadtime index has come in above the neutral 50 mark for the ninth time in 11 months.

Two findings by the NAPM Business Survey Committee also indicate some problems. Only 14% of queried buyers now say they are buying hand-to-mouth—down from the 18% figure of the previous two months. Conversely, the 26% buying six months or more in advance is the highest years.

The group also reports a continuing drift toward slower deliveries. At latest report, some 30% of respondents noted some slowdown over the past month—10 times the 3% who were lucky enough to experience a speedup. More important, the trend toward slower performance has been going on for 15 consecutive months.

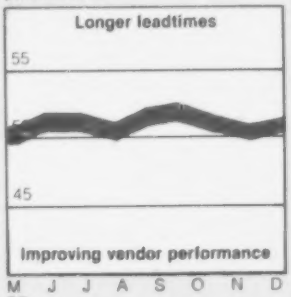
One reason for this poor performance is the growing list of items on the short-supply list. Procurement problems are now reported for aluminum (particularly ingot), copper, steel, hot- and cold-rolled steel sheet, wood pulp, caustic goods, acetic acid, ethylene, polyethylene, plastic resins, methanol, and titanium dioxide.

When should things begin to ease up? It's hard to pinpoint a specific date, but the consensus is that the overall supply situation should begin to improve by late summer or early fall. It may be next year before the short-supply list is empty.

Monthly procurement status report

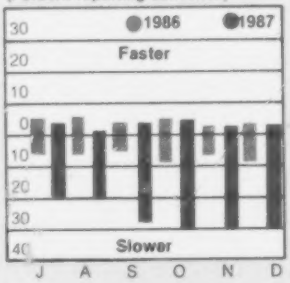
Leadtime index

A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



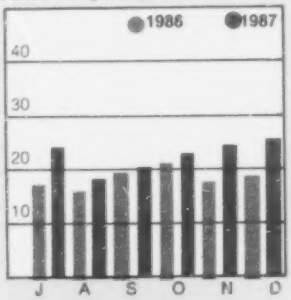
Delivery performance

(Percent reporting deliveries)



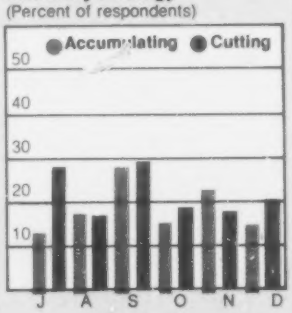
Forward commitments

(% committing 90 days or more in advance)



Inventory strategy

(Percent of respondents)



Source: NAPM

Leadtimes and availability

Chicago: Bearings leads have gone out to 20 weeks. Also out are polyethylene (to 8-10), Mylar (to 10-12), and structural steel (to 6-10). Hot rolled plate is tight, and most steel remains on allocation.

Cleveland: Status quo, with these weekly leads: Maintenance paint (2), polyethylene (2-3), PVC resins (3), cold-finish aluminum (8), glassines and greaseproof papers (4-5), and hardwood lumber (2-3).

Houston: Turbines are now at 14 months and high-voltage electric motors at 8-10 mo. Other current waits: 15-600 psi cast steel valves (0-4 mo.), and structural steel (2-4 mo.).

Los Angeles: Several items have moved out in weeks: Aluminum tubing (5-6), grey iron castings (6-8), specialty wire (5-7), pumps (12-14), and imported fasteners (22-24). But domestic fasteners are at (4-6 wk.).

Philadelphia: A few stretchouts in some component parts bring weekly leads to: Standard bearings (6-8), special bearings (20), aluminum die investment castings (10-14).

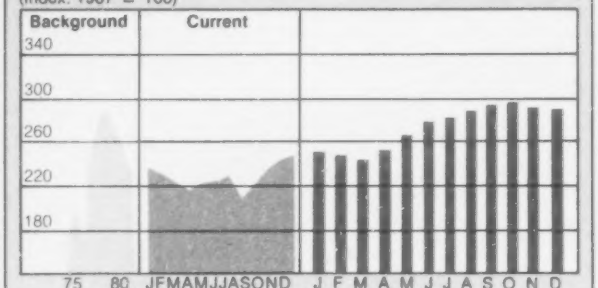
Pittsburgh: Only one change here, as zinc drops from 4 to 3 weeks. Other delays: Steel strapping (2-3), maintenance paint and PVC resins (5), nickel (2), silicon (3), corrugated boxes (3-4), drums (1), plastic packaging materials (2-3), and waterproof papers (8).

BUSINESS DATATRAK

Raw material price barometer

Latest month 291.7
Month before 292.0
Year ago 247.5

(Index: 1967 = 100)



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	16.50	16.50	23.95
Steel, bars, Pitts., cwt.	16.50	16.50	23.95
Steel, bars, C.R., Pitts., cwt.	19.45	19.45	31.00
Steel, plates, Pitts., cwt.	19.75	19.75	18.25
Steel, plates, H.R., Pitts., cwt.	19.75	19.75	18.25
Steel, sheets, C.R., Detroit, cwt.	28.15	28.15	25.90
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.890	.810	.535
Antimony, N.Y., dealer, lb.	1.12	1.10	1.05
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.65
Brass, red, 85%, [sheet], lb.	2.04	1.84	1.29
Brass, yellow, [sheet], lb.	1.99	1.79	1.24
Cadmium, N.Y., dealer, lb.	3.00	3.00	0.97
Copper, electrolytic, wire bars, refd., lb.	1.40	1.20	.65
Copper sheet, over 24 in., lb.	2.13	1.93	1.38
Lead, common, N.Y., lb.	.380	.420	.280
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.53
Mercury, 20 fl. lots, N.Y., fl.	345.00	325.00	220.00
Molybdenum, oxide, dealer, lb.	3.03	2.80	3.07
Nickel, cathode, dealer, lb.	3.80	3.03	1.70
Platinum, dealer, oz.	500.00	510.00	534.00
Silver, N.Y., oz.	6.81	6.92	5.57
Tin, N.Y., dealer, lb.	3.20	3.18	3.13
Zinc, Prime West, East St. Louis, lb.	.45	.45	.41
Zinc, die casting alloy, No. 3, lb.	.505	.505	.525
PAPER			
Uncoated book #3 offset, ton	890.00	890.00	860.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	17.07	17.14	16.38
Grocery sacks, ton	435.00	410.00	390.00
Solid bleached paperboard, ton	650.00	650.00	550.00
Kraft linerboard, 42 lb., unbleached, ton	380.00	380.00	320.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.274	.274	.243
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.24	1.24	1.06
Cotton middling, 1", N.Y., lb.	.600	.596	.545
Printcloth, 48", 80x80, N.Y., spot, yd.	0.92	0.92	0.90
Army duck, 37", 13 oz., yd.	1.51	1.51	1.40
Blended printcloth, 64", 78x54, yd.	.80	.80	.80
20s combed yarns	2.00	1.74	1.74
Wool 64s, Staple, lb.	3.00	3.00	1.90
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	75.00	75.00	80.00
Benzene, petroleum, tanks, Houston, gal.	0.85	0.89	1.15
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.78	.78	.91
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.44	.36	.28
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.32	.32	.27
Polyethylene resin, low density liner film grade (market place), lb.	.385	.385	.290
Polypropylene, homopolymer grade (market price), lb.	.470	.470	.325
Polystyrene, general purpose grade (market price), lb.	.550	.535	.360
Polyvinyl chloride, pipe grade (market price), lb.	.380	.380	.295
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.42	.40	.25
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	127.50	127.50	152.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.80	.80	.77
Xylene tanks, gal.	.745	.780	.765
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl.	320.35	333.75	326.75
Lumber 2x2 pine, mbf, cl.	322.10	326.35	318.65
Plywood, plyform, ½", msf, cl.	569.85	568.05	584.10
Plywood, ¾", msf, cl.	395.45	394.90	382.60
Cement, bulk, ton, tl.	63.73	63.73	63.63
Sand, ton, cl.	7.31	7.12	6.62
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	47.42	48.83	48.27
Crushed stone, 1½", ton, cl.	8.26	8.31	7.83
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl.	0.91	0.91	0.84
Gypsum sheathing, ½"x1"x8", msf, tl.	225.54	225.54	213.87
Brick, common, per thousand, tl.	200.91	200.91	186.42
Asphalt paving, AC-20	139.37	140.30	124.19
Concrete sewer pipe, 12", prem. joint, per foot, cl.	7.57	7.54	7.36
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	11.50	14.75	11.50
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	19.50	19.75	17.00
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	.540	.560	.375
Gasoline, 94 oct., reg., Chi., tank car, gal.	.495	.540	.428
Heating oil, No. 2, Chi., bulk, gal.	.550	.585	.430
Heating oil, No. 2, N.Y., bulk, gal.	.563	.568	.438
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	.528	.553	.433
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	.260	.260	.240
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	102.00	106.00	80.00
Steel, No. 1 hvy., dlvd., Chi., ton	100.00	105.00	77.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	1.130	1.015	.560
Copper, No. 2, East, wholesale buy, dlvd., lb.	1.035	.925	.480
Brass, red, East, wholesale buy, dlvd., lb.	1.090	.975	.520
Brass, yellow, East, wholesale buy, dlvd., lb.	.425	.405	.330
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.550	.510	.340
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.645	.585	.365
Zinc, old, East, wholesale buy, dlvd., lb.	.20	.20	.20
Lead, clean solids, East, wholesale buy, dlvd., lb.	.240	.265	.155
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	25.00	25.00	25.00
Paper, old corrug. box, dlr., N.Y., ton	10.00	15.00	20.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	.120	.120	.095
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	.23	.23	.11

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

Imports will decline slightly say *PW* readers

Imports, despite the softer dollar, will continue to play a major role in near-term industrial purchasing strategies.

This may be one reason the pesky U.S. trade deficit continues near record levels. In any case, a new nationwide *PurchasingWorld* survey suggests that any 1988 import decline is likely to be quite small—maybe even non-existent.

Comments by responding PMs indicate several factors behind the continuing influx of foreign materials and products:

- The widely reported fall in the U.S. dollar has been spotty—limited to just a handful of countries.
- In many cases, overseas vendors have become the only viable source of supply.
- These same foreign suppliers often offer better-than-domestic quality and servicing.
- Foreign producers continue to step up their marketing activity.
- Countertrade requirements in some cases call for reciprocal importing.

Looking first at the dollar factor—only 38% of responding purchasing executives dub the weaker dollar as a significant factor in curbing imports—with the remaining PMs split up as follows: Small impact (33%), no real impact (29%).

A look at the actual behavior of the dollar *vis a vis* other currencies helps explain this wide difference of opinion.

More to the point: While the dollar has nosedived against the Japanese yen and German mark, it has scarcely moved when compared to some other currencies.

Thus the U.S. dollar has fallen only slightly against that of Canada, our number one trading partner. And it has barely budged against the currencies of Far Eastern entities such as Hong Kong, Taiwan, and South Korea—all of which are among our top trading partners.

Average dip is slight

To put all this into proper perspective: The overall U.S. dollar is only 6-7% below its level of just two years ago—based on a Manufacturers Hanover Bank index that measures the currencies of all 18 of our biggest trading partners.

The inescapable conclusion: Not all of our imports have been battered by exchange-related upward price pressures. And this mixed currency picture has actually resulted in some shifts in imports—toward countries with weaker exchange rates.

In any event, nearly one out of four importing buyers report such shifts—generally away from Europe and Japan—and toward other nations, many of which continue to report labor costs well under those noted for the United States.

Then, too, imports of several other product lines are likely to move up the price ladder in the months and quarters ahead. Some of the items expected to sport higher tags: Castings, bearings, forgings, chemicals, heavy electrical equipment, integrated circuit memories, steel wire, and plastic molded items.

Shifts to other countries

Not surprising then, the domestic-import price gap has narrowed a bit. The 62% who now note some shrinkage in price differentials more than outweigh the 24% who note an unchanged gap and the 14% who, by shifting over to imports from weak currency nations, have been able to widen the price advantage.

Importing purchasing managers still report a considerable price advantage on their average import mix. The typical break, for example, still runs in excess of 10%—and more than one out of every four queried buyers say their saving is actually in excess of 15%.

Another finding pointing to a continuing large import role: About half of those who import say that more than 10% of their purchased materials and parts now come from some overseas source.

Demand is a major factor

Price is not the only factor behind such continuing heavy incoming tonnages. Many PMs point to product availability—specifically the lack of alternate U.S. sources.

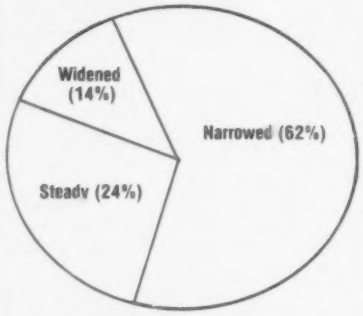
After purchasing managers add to the list of factors pushing them toward imports—noting 1) better-than-domestic quality, 2) responsiveness to lead-time requirements, 3) technological leadership, and 4) the ability to accomplish quick prototyping.

And overseas sellers are not about to give up the lucrative U.S. market.

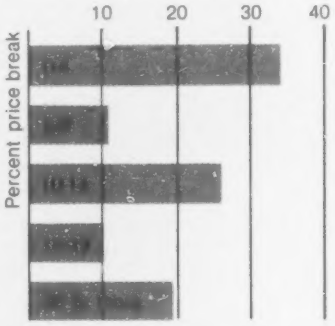
PW

PM's look at imports

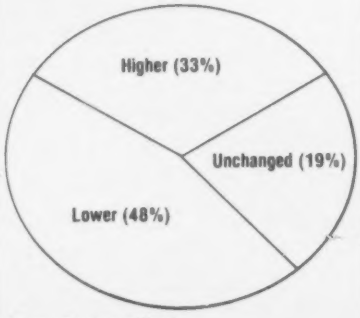
While the price gap has narrowed
(Now v.s. year ago)



Savings are still possible
Percent of respondents



So imports will stay high
(1988 vs 1987)



Source: PurchasingWorld